

CITY OF ELGIN

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2012

TABLE OF CONTENTS

	<u>Page</u>
Officials	4
Independent Auditor's Report	5-6
Management's Discussion and Analysis	7-13
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets -	
Cash Basis	A 15
Government Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and	
Changes in Cash Balances	B 16
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and	
Changes in Cash Balances	C 17
Notes to Financial Statements	18-25
Other Information:	
Budgetary Comparison Schedule of Receipts,	
Disbursements, and Changes in Cash Balances -	
Budget and Actual (Cash Basis) - All Governmental	
Funds and Proprietary Funds	27
Notes to Other Information - Budgetary Reporting	28
Supplementary Information:	<u>Schedule</u>
Schedules of Cash Receipts, Disbursements and	
Changes in Cash Balances:	
Nonmajor Governmental Funds	1 30
Nonmajor Proprietary Funds	2 31
Schedule of Indebtedness	3 32
Bond and Note Maturities	4 33
Schedule of Expenditures of Federal Awards	5 34
Independent Auditor's Report on Internal Control over	
Financial Reporting and on Compliance and Other	
Matters Based on an Audit of Financial Statements	
Performed in Accordance with <u>Government Auditing</u>	
<u>Standards</u>	35-37

Independent Auditor's Report on Compliance with Requirements That Could have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	38-39
Schedule of Findings and Questioned Costs	40-44

CITY OF ELGIN

OFFICIALS

<u>Name</u>	<u>Title</u> (Before January 2012)	<u>Term Expires</u>
William Pfister	Mayor	Jan. 2014
James Knobloch	Mayor Pro tem	Jan. 2012
Robert Frieden	Council Member	Jan. 2012
Michael Baker	Council Member	Jan. 2012
Sarah Schori	Council Member	Jan. 2014
Sara Strong	Council Member	Jan. 2014
Rhonda Dales	City Clerk	Indefinite
Larry Ormston	Treasurer	Indefinite
David Katsumes	Attorney	Indefinite
(After December 2011)		
William Pfister	Mayor	Jan. 2014
James Knobloch	Mayor Pro Tem	Jan. 2016
Sarah Schori	Council Member	Jan. 2014
Sara Strong	Council Member	Jan. 2014
Robert Frieden	Council Member	Jan. 2016
Michael Baker	Council Member	Jan. 2016
Rhonda Dales	City Clerk	Indefinite
Larry Ormston	Treasurer	Indefinite
David Katsumes	Attorney	Indefinite

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Elgin, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Elgin's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2011.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by activity of the cash basis net assets and the distribution by fund of the cash balances at July 1, 2011, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Elgin as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

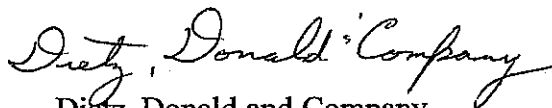
In accordance with Government Auditing Standards, we have also issued our report dated March 13, 2013 on our consideration of the City of Elgin's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elgin's basic financial statements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the cash balances at July 1, 2011, as it relates to Schedules 1 and 2, as discussed in the third paragraph, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Elgin's basic financial statements. The Management's Discussion and Analysis and budgetary comparison information on pages 7 through 13 and 27 through 28 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Elkader, Iowa

March 13, 2013


Dietz, Donald and Company
Certified Public Accountants
FEIN 42-1172392



City of Elgin

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Elgin provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

The cash basis net assets of the City's governmental activities increased \$ 5,651 in fiscal 2012.

The cash basis net assets of the City's business activities increased \$ 18,989 in fiscal 2012.

USING THIS REPORT

This report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how government services were financed in the short term, as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison to the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and operational results of funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into three kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks, sanitary sewer system and solid waste collection. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

Governmental Funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (1) the General Fund, (2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, (3) the Debt Service Fund, (4) the Capital Projects Fund and (5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

Proprietary Funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and solid waste funds. The sewer fund is considered to be a major fund of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$ 598,733 to \$ 604,384. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	Year Ended June 30, 2012
Receipts	
Program receipts:	
Charges for service	\$ 59,428
Operating grants, contributions and restricted interest	76,410
Capital grants and contributions	1,064,473

General receipts:	
Property tax	167,096
Local option sales tax	46,917
Unrestricted interest on investments	689
Note proceeds	499,374
Other general receipts	<u>6,966</u>
Total receipts	<u>1,921,353</u>
Disbursements	
Public safety	30,311
Public works	101,054
Culture and recreation	81,664
Community and economic development	7,651
General government	75,992
Debt service	47,199
Capital projects	<u>1,571,831</u>
Total disbursements	<u>1,915,702</u>
Change in cash basis net assets	5,651
Cash basis net assets beginning of year	<u>598,733</u>
Cash basis net assets end of year	<u>\$ 604,384</u>

The cost of all governmental activities this year was \$ 1,915,702. However, as shown in the Statement of Activities and Net Assets on pages 15, the amount taxpayers ultimately financed for these activities was only \$ 715,391 because some of the cost was paid by those directly benefiting from the programs (\$ 59,428) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$ 1,140,883). The City paid for the remaining "public benefit" portion of governmental activities with \$ 214,013 of taxes (some of which could only be used for certain programs) and other receipts such as issuing notes and bonds.

Changes in Cash Basis Net Assets of Business Type Activities

Year Ended
June 30, 2012

Receipts:

Program receipts:

Charges for service:

Sewer	\$ 73,941
Water	63,846
Solid waste	<u>66,270</u>

Total receipts	<u>204,057</u>
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Disbursements:

Sewer	91,440
Water	33,355
Solid waste	<u>60,273</u>

Total disbursements	<u>185,068</u>
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Change in cash basis net assets	18,989
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Cash basis net assets beginning of year	<u>27,291</u>
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Cash basis net assets end of year	<u><u>\$ 46,280</u></u>
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Total business type activities cash basis net assets increased from a year ago, from \$ 27,291 to \$ 46,280.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Elgin completed the year, its governmental funds reported a combined fund balance of \$ 604,384, an increase of \$ 5,651 from last year's total of \$ 598,733. The following are the major reasons for the changes in the fund balances of the major funds from the prior year.

The General Fund cash balance increased from \$ 16,526 from the prior year to \$ 303,872. This increase approximated the General Fund's budgeted cash balance increase.

The Capital Projects Fund cash balance decreased \$ 78,792 from the prior year to \$ 176,482.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Sewer Fund cash balance decreased \$ 17,499 to a deficit balance of \$ 28,271 due primarily to debt service requirements exceeding net operating receipts.

BUDGETARY HIGHLIGHTS

The City's receipts were \$ 531,048 more than budgeted. This was primarily due to receiving grant money for the new bridge which was not included in the original budget.

The City's disbursements were \$ 1,202,727 more than budgeted. Actual disbursements for public safety, culture and recreation, debt service and capital project functions were \$ 1,078; \$ 26,299, \$ 22,454, and \$ 1,571,231, respectively, more than budgeted amounts. This was primarily due to capital projects not being included in the budget.

DEBT SERVICE

At June 30, 2012, the City had \$ 1,059,395 in bonds and other long-term debt outstanding, compared to \$ 643,021 last year, as shown below.

Outstanding Debt at Year End (Expressed in Thousands)

	June 30,	
	2012	2011
General obligation notes	\$ 522	268
Revenue bonds	513	375
Revenue anticipation notes	24	0
Total	<u>\$ 1,059</u>	<u>643</u>

Debt increased as a result of issuing \$ 292,000 of general obligation notes for the new bridge. In addition, \$ 165,374 of revenue bonds were issued to complete the financing for a sewer construction project from the previous year.

The constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 522,000 is significantly below its constitutional debt limit of approximately \$ 1.2 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Elgin's elected and appointed officials and citizens considered many factors when setting the fiscal year 2013 budget, tax rates and fees charged for various City activities. One of these factors is growth. Population over the last 40 years increased 11.4%. Actual property valuation increased 0.4% between January 1, 2010 and January 1, 2011. Sales tax receipts increased 2.8% between 2010 and 2011.

These indicators were taken into account when adopting the budget for fiscal year 2013. Amounts available for appropriation in the operating budget are approximately \$ 1.8 million, an increase of 71.8% over the fiscal year 2012 budget. Property tax rates will increase 0.7% for fiscal 2013. Property taxes are budgeted to increase \$ 2,700. The increase in budgeted receipts is being lead by an increase in budgeted grant receipts of \$ 287,000 and an increase in budgeted note proceeds of \$ 500,000.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$ 279,000 by the close of fiscal year 2013.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Rhoda Dales; City Clerk; 212 Main Street; Elgin, Iowa 52141-0155.

BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF ELGIN
STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS
As of and for the Year Ended June 30, 2012

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Operating Grants,	Contributions and Restricted Interest	Capital Grants and Contributions		Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Public safety	\$ 30,311	10,532	2,305	-	(17,474)	-	(17,474)
Public works	101,054	-	64,783	-	(36,271)	-	(36,271)
Culture and recreation	81,664	8,621	9,322	-	(63,721)	-	(63,721)
Community and economic development	7,651	-	-	-	(7,651)	-	(7,651)
General government	75,992	1,120	-	-	(74,872)	-	(74,872)
Debt service	47,199	39,155	-	-	(8,044)	-	(8,044)
Capital projects	1,571,831	-	-	-	(507,358)	-	(507,358)
Total governmental activities	1,915,702	59,428	76,410	1,064,473	(715,391)	-	(715,391)
Business type activities:							
Sewer	91,440	73,941	-	-	-	(17,499)	(17,499)
Water	33,355	63,846	-	-	-	30,491	30,491
Solid waste	60,273	66,270	-	-	-	5,997	5,997
Total business type activities	185,068	204,057	-	-	(715,391)	18,989	18,989
Total	\$ 2,100,770	263,485	76,410	1,064,473			(666,402)
General Receipts:							
Property tax levied for:							
General purposes					140,962	-	140,962
Debt service					26,134	-	26,134
Local option sales tax					46,917	-	46,917
Unrestricted interest on investments					689	-	689
Bond and note proceeds					499,374	-	499,374
Miscellaneous					6,966	-	6,966
Total general receipts					721,042	-	721,042
Change in cash basis net assets					5,651	18,989	24,640
Cash basis net assets beginning of year					598,733	27,291	626,024
Cash basis net assets end of year					\$ 604,384	46,280	650,664
Cash Basis Net Assets							
Restricted:							
Nonexpendable:							
Cemetery perpetual care					\$ 11,179	-	11,179
Expendable:							
Cemetery					12,000	-	12,000
Debt service					67,704	-	67,704
Streets					41,003	-	41,003
Capital projects					176,482	-	176,482
Other purposes					4,144	-	4,144
Unrestricted					291,872	46,280	338,152
Total cash basis net assets					\$ 604,384	46,280	650,664

See notes to financial statements.

CITY OF ELGIN
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2012

	General	Capital Projects	Nonmajor	Total
Receipts:				
Property tax	\$ 127,087	-	40,009	167,096
Other city tax	-	-	46,917	46,917
Licences and permits	1,120	-	-	1,120
Use of money and property	6,957	-	-	6,957
Intergovernmental	46,195	1,037,487	64,783	1,148,465
Charges for service	1,265	-	-	1,265
Special assessments	-	-	39,155	39,155
Miscellaneous	10,904	-	100	11,004
Total receipts	193,528	1,037,487	190,964	1,421,979
Disbursements:				
Operating:				
Public safety	30,242	-	69	30,311
Public works	55,979	-	45,075	101,054
Culture and recreation	78,464	-	3,200	81,664
Community and economic development	7,651	-	-	7,651
General government	72,415	-	3,577	75,992
Debt service	-	-	47,199	47,199
Capital projects	-	1,571,831	-	1,571,831
Total disbursements	244,751	1,571,831	99,120	1,915,702
Excess (deficiency) of receipts over (under) disbursements	(51,223)	(534,344)	91,844	(493,723)
Other financing sources (uses):				
Bond and note proceeds	-	499,374	-	499,374
Anticipation note proceeds	-	800,000	-	800,000
Anticipation note payments	-	(800,000)	-	(800,000)
Operating transfers in	67,749	-	22,990	90,739
Operating transfers out	-	(43,822)	(46,917)	(90,739)
Total other financing sources (uses):	67,749	455,552	(23,927)	499,374
Net change in cash balances	16,526	(78,792)	67,917	5,651
Cash balances beginning of year	287,346	255,274	56,113	598,733
Cash balances end of year	\$ 303,872	176,482	124,030	604,384
Cash Basis Fund Balances				
Non spendable cemetery perpetual care	\$ -	-	11,179	11,179
Restricted for:				
Cemetery	12,000	-	-	12,000
Debt service	-	-	67,704	67,704
Streets	-	-	41,003	41,003
Capital projects	-	176,482	-	176,482
Other purposes	-	-	4,144	4,144
Committed for library	118,179	-	-	118,179
Unassigned	173,693	-	-	173,693
Total cash basis fund balances	\$ 303,872	176,482	124,030	604,384

See notes to financial statements.

CITY OF ELGIN
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2012

	Enterprise		
	Sewer	Nonmajor	Total
Operating receipts:			
Charges for service	\$ 73,941	130,116	204,057
Operating disbursements:			
Business type activities	48,996	93,628	142,624
Excess of operating receipts over operating disbursements	24,945	36,488	61,433
Non-operating disbursements:			
Debt service	(42,444)	-	(42,444)
Excess (deficiency) of receipts over (under) disbursements	(17,499)	36,488	18,989
Cash balances beginning of year	(10,772)	38,063	27,291
Cash balances end of year	<u>\$ (28,271)</u>	<u>74,551</u>	<u>46,280</u>
Cash Basis Fund Balances:			
Unrestricted	<u>\$ (28,271)</u>	<u>74,551</u>	<u>46,280</u>

See notes to financial statements.

CITY OF ELGIN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

(1) Summary of Significant Accounting Policies

The City of Elgin is a political subdivision of the State of Iowa located in Fayette County. It was first incorporated in 1891 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides sewer, water, and solid waste collection services for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Elgin, Iowa has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and [1] the ability of the City to impose its will on that organization or [2] the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Fayette County Solid Waste Commission, Fayette County Economic Development Commission, and Fayette County E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For

the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1] charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2] grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds. All remaining enterprise funds are aggregated and reported as nonmajor enterprise funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Capital Projects Fund is used to account for all receipts and disbursements related to major capital projects in the City.

The City reports the following major proprietary fund:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Elgin maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statement, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling state legislation.

Committed - Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the City Council through resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, debt service and capital projects functions.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board No. 3.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation notes and revenue bonds are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 64,000	17,933	27,000	15,402	91,000	33,335
2014	65,000	14,807	28,000	14,592	93,000	29,399
2015	47,000	12,395	29,000	13,752	76,000	26,147
2016	51,000	10,920	30,000	12,882	81,000	23,802
2017	53,000	9,322	31,000	11,982	84,000	21,304
2018-22	242,000	21,008	171,000	45,360	413,000	66,368
2023-27	0	0	197,395	17,910	197,395	17,910
Total	\$ 522,000	86,385	513,395	131,880	1,035,395	218,265

Sewer Revenue Bonds

On February 10, 2010, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$ 707,000 of sewer revenue bonds with interest at 3% per annum. The bonds were issued pursuant to the provisions of Section 384.24A and 384.83 of the Code of Iowa for the purpose of paying the cost of constructing certain wastewater treatment facilities. Upon request, the Trustee will reimburse the City for costs as they are incurred. At June 30, 2012, the City had drawn \$ 566,395, including a \$ 7,070 initiation fee, of the \$ 707,000 authorized and made principal payments of \$ 27,000 and interest payments of \$ 13,677 for year ended June 30, 2012, leaving a principal balance of \$ 513,395 at June 30, 2012. Wells Fargo Bank Iowa, N.A. has the remaining balance of \$ 140,605 in trust, which the City can request as the project progresses. Principal payments are currently being determined using a tentative repayment schedule, as a formal repayment schedule has not yet been adopted.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the \$ 707,000 of sewer revenue bonds issued on February 10, 2010 with interest at 3% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds are payable solely from sewer customer net receipts. For the current year, principal and interest paid and total customer net receipts were \$ 40,677 and \$ 24,945, respectively.

The resolution providing for the issuance of the sewer revenue bonds includes the following provisions:

- (1) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the fund.
- (2) The rents, rates and other charges shall be at least sufficient to meet the operation and maintenance expenses of the sewer system and to produce and maintain net revenues at a level not less than 110% of the amount of principal and interest currently due on the revenue bonds.

Net revenues for the fiscal year ending June 30, 2012 were only 61% of the amount of principal and interest currently due on the revenue bonds.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan member and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS; P.O. Box 9117; Des Moines, Iowa 50306-9117

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2012 was \$ 7,720, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused comp time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for comp time payable to employees at June 30, 2012, primarily related to the General Fund, is \$ 500.

This liability has been computed based on rates of pay in effect at June 30, 2012.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option Sales Tax	\$ 23,927
	Capital Projects	<u>43,822</u>
		<u>67,749</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	<u>22,990</u>
Total		<u>\$ 90,739</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$ 16,778 for the year ended June 30, 2012.

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks did not exceed commercial insurance coverage for the year ended June 30, 2012.

(9) Commitments

In March, 2012 the City entered into two construction contracts totaling \$ 1,013,938 for water system and drainage improvements. At June 30, 2012, nothing had been disbursed under these contracts.

(10) Deficit Balance

The Enterprise, Sewer Fund had a deficit balance of \$ 28,271 at June 30, 2012. The deficit balance was a result of rate increases not being in place soon enough to make required debt service payments. It is anticipated that rate increases will eliminate the deficit balance.

OTHER INFORMATION

CITY OF ELGIN
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES-
BUDGET AND ACTUAL (CASH BASIS)-ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION
Year Ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts	Budgeted to Total Variance
Receipts:					
Property tax	\$ 167,096	-	167,096	162,761	4,335
Other city tax	46,917	-	46,917	45,577	1,340
Licenses and permits	1,120	-	1,120	1,150	(30)
Use of money and property	6,957	-	6,957	13,500	(6,543)
Intergovernmental	1,148,465	-	1,148,465	675,000	473,465
Charges for service	1,265	204,057	205,322	196,000	9,322
Special assessments	39,155	-	39,155	-	39,155
Miscellaneous	11,004	-	11,004	1,000	10,004
Total receipts	1,421,979	204,057	1,626,036	1,094,988	531,048
Disbursements:					
Public safety	30,311	-	30,311	29,233	(1,078)
Public works	101,054	-	101,054	501,000	399,946
Culture and recreation	81,664	-	81,664	55,365	(26,299)
Community and economic development	7,651	-	7,651	11,000	3,349
General government	75,992	-	75,992	78,700	2,708
Debt service	47,199	-	47,199	24,745	(22,454)
Capital projects	1,571,831	-	1,571,831	-	(1,571,831)
Business type activities	-	185,068	185,068	198,000	12,932
Total disbursements	1,915,702	185,068	2,100,770	898,043	(1,202,727)
Excess (deficiency) of receipts over (under) disbursements	(493,723)	18,989	(474,734)	196,945	(671,679)
Other financing sources, net	499,374	-	499,374	-	499,374
Excess of receipts and other financing sources over disbursements and other financing uses	5,651	18,989	24,640	196,945	(172,305)
Balances beginning of year	598,733	27,291	626,024	26,444	599,580
Balances end of year	\$ 604,384	46,280	650,664	223,389	427,275

See accompanying independent auditor's report and notes to other information-
budgetary reporting.

CITY OF ELGIN

Notes to Other Information - Budgetary Reporting

June 30, 2012

The budgetary comparison is presented as Other Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. The nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, debt service and capital projects functions.

SUPPLEMENTARY INFORMATION

Schedule 1

CITY OF ELGIN
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2012

	Special Revenue			Permanent Cemetery Perpetual Care		Total
	Road Use Tax	Employee Benefit	Local Option Sales Tax	Debt Service		
Receipts:						
Property tax	\$ -	13,875	-	26,134	-	40,009
Other city tax	-	-	46,917	-	-	46,917
Intergovernmental	64,783	-	-	-	-	64,783
Special assessments	-	-	-	39,155	-	39,155
Miscellaneous	-	-	-	-	100	100
Total receipts	64,783	13,875	46,917	65,289	100	190,964
Disbursements:						
Operating:						
Public safety	-	69	-	-	-	69
Public works	42,190	2,885	-	-	-	45,075
Culture and recreation	-	3,200	-	-	-	3,200
General government	-	3,577	-	-	-	3,577
Debt service	-	-	-	47,199	-	47,199
Total disbursements	42,190	9,731	-	47,199	-	99,120
Excess of receipts over disbursements	22,593	4,144	46,917	18,090	100	91,844
Other financing sources (uses):						
Operating transfers in	-	-	(46,917)	22,990	-	22,990
Operating transfers out	-	-	(46,917)	-	-	(46,917)
Total financing sources (uses):	-	-	-	22,990	-	(23,927)
Net change in fund balances	22,593	4,144	-	41,080	100	67,917
Cash balances beginning of year	18,410	-	-	26,624	11,079	56,113
Cash balances end of year	\$ 41,003	4,144	-	67,704	11,179	124,030
Cash Basis Fund Balances:						
Nonspendable--cemetery perpetual care	\$ -	-	-	-	11,179	11,179
Restricted for:						
Debt service	-	-	-	67,704	-	67,704
Streets	41,003	4,144	-	-	-	45,147
Other purposes	-	-	-	-	-	-
Total cash basis fund balances	\$ 41,003	4,144	-	67,704	11,179	124,030

See accompanying independent auditor's report.

CITY OF ELGIN
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2012

	Enterprise		
	Water	Solid Waste	Total
Operating receipts:			
Charges for service	\$ 63,846	66,270	130,116
Operating disbursements:			
Business type activities	33,355	60,273	93,628
Excess of operating receipts over operating disbursements	30,491	5,997	36,488
Cash balances beginning of year	25,380	12,683	38,063
Cash balances end of year	<u>\$ 55,871</u>	<u>18,680</u>	<u>74,551</u>
Cash Basis Fund Balances:			
Unrestricted	<u>\$ 55,871</u>	<u>18,680</u>	<u>74,551</u>

See accompanying independent auditor's report.

Schedule 3

CITY OF ELGIN
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation notes:								
Fire station	Dec 1, 2006	4.90%	\$ 150,000	61,000	-	20,000	41,000	2,989
Street improvement	Jul 7, 2010	3.00	225,000	207,000	-	18,000	189,000	6,210
Bridge	May 2, 2012	3.25	292,000	-	292,000	-	292,000	-
Total				\$ 268,000	292,000	38,000	522,000	9,199
Revenue bonds:								
Sewer	Feb 10, 2010	3.00%	N/A	\$ 375,021	165,374	27,000	513,395	13,677
Anticipation notes:								
Water revenue	N/A	0%	\$ 24,000	-	24,000	-	24,000	-
Bridge general obligation	N/A	3.00	800,000	-	800,000	800,000	-	8,694
Total				\$ -	824,000	800,000	24,000	8,694

See accompanying independent auditor's report.

Schedule 4

CITY OF ELGIN
BOND AND NOTE MATURITIES
June 30, 2012

Year Ending June 30,	General Obligation Notes										Revenue Bonds		
	Fire Station					Street Improvement					Sewer		
	Issued Dec 1, 2006					Issued Jul 7, 2010					Issued Feb 10, 2010		
	Interest Rates	Amount	Interest Rates	Amount	Total	Interest Rates	Amount	Interest Rates	Amount	Total	Interest Rates	Amount	Total
2013	4.90%	\$ 20,000	3.00%	\$ 19,000	39,000	3.25%	\$ 25,000	3.00%	\$ 27,000	54,000	3.00%	\$ 27,000	27,000
2014	4.90	21,000	3.00	19,000	40,000	3.25	25,000	3.00	28,000	65,000	3.00	28,000	55,000
2015	-	-	-	21,000	21,000	3.25	26,000	-	29,000	50,000	3.00	29,000	51,000
2016	-	-	-	24,000	24,000	3.25	27,000	-	30,000	54,000	3.00	30,000	54,000
2017	-	-	-	25,000	25,000	3.25	28,000	-	31,000	56,000	3.00	31,000	57,000
2018	-	-	-	26,000	26,000	3.25	30,000	-	32,000	56,000	3.00	32,000	58,000
2019	-	-	-	27,000	27,000	3.25	31,000	-	34,000	61,000	3.00	33,000	61,000
2020	-	-	-	28,000	28,000	3.25	32,000	-	35,000	63,000	3.00	34,000	64,000
2021	-	-	-	-	-	3.25	33,000	-	36,000	66,000	3.00	35,000	67,000
2022	-	-	-	-	-	3.25	35,000	-	38,000	71,000	3.00	37,000	72,000
2023	-	-	-	-	-	-	-	-	39,000	75,000	3.00	38,000	76,000
2024	-	-	-	-	-	-	-	-	40,000	79,000	3.00	39,000	80,000
2025	-	-	-	-	-	-	-	-	41,000	83,000	3.00	40,000	84,000
2026	-	-	-	-	-	-	-	-	42,000	87,000	3.00	41,000	88,000
2027	-	-	-	-	-	-	-	-	43,000	91,000	3.00	42,000	92,000
Total		\$ 41,000		\$ 189,000	\$ 230,000		\$ 292,000		\$ 513,395	\$ 742,395		\$ 513,395	\$ 742,395

See accompanying independent auditor's report.

CITY OF ELGIN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	09-CDR-003 08-DRI-208 10-HSG-029	\$ 316,940 81,300 103,366 <hr/> 501,606
U.S. Environmental Protection Agency:			
Iowa Finance Authority:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	SRF-CS0240R	\$ 123,000
Total			<hr/> \$ 624,606 <hr/>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Elgin and is prepared in conformity with an other comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Elgin, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated March 13, 2013. Our report on the financial statements, which were prepared in conformity with another comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2011. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the City of Elgin is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Elgin's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Elgin's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Elgin's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs,

we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs identified as items II-A-12 and II-B-12 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Elgin's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However we noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

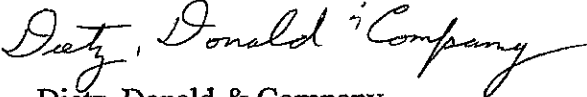
The City of Elgin's responses to findings in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Elgin's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Elgin and other parties to whom the City of Elgin may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Elgin during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

March 13, 2013


Dietz, Donald & Company
Certified Public Accountants
FEIN 42-1172392

Dietz, Donald & Company

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Elgin, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Elgin's major federal program for the year ended June 30, 2012. The City of Elgin's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Elgin's management. Our responsibility is to express an opinion on the City of Elgin's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Elgin's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Elgin's compliance with those requirements.

In our opinion, the City of Elgin complied, in all material respects with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the City of Elgin is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Elgin's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the City of Elgin's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Elgin's internal control over compliance,

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.


Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City of Elgin's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Elgin's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Elgin and other parties to whom the City of Elgin may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Elkader, Iowa

March 13, 2013



Dietz, Donald & Company
Certified Public Accountants
FEIN 42-1172392

CITY OF ELGIN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

Part I: Summary of the Independent Auditor's Results:

- (1) Qualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (2) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (3) The audit did not disclose any noncompliance which is material to the financial statements.
- (4) The audit of the financial statements did not disclose any material weaknesses in internal control over the major program.
- (5) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (6) The audit did not disclose any audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (7) The major program was CFDA Number 14.228 - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii.
- (8) The dollar threshold used to distinguish between Type A and Type B programs was \$ 300,000.
- (9) The City of Elgin did not qualify as a low-risk auditee.

CITY OF ELGIN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- II-A-12 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-12 Financial Reporting - As is common in small organizations, the City does not prepare its financial statements, complete with notes, in accordance with U.S. generally accepted accounting principles. Accordingly, the City is unable to, and has not established internal controls over the preparation of financial statements.

Recommendation - As part of the audit, we have been requested to prepare a draft of the City's financial statements, including related notes to the financial statements. The City then performs a review of the financial statements. However, in order to provide improved oversight of the financial preparation services and implement controls over the financial reporting process, the City should establish review policies and procedures including the performance of some or all of the following functions:

Review the adequacy of financial statement disclosures.

Review and approve schedule and calculations supporting amounts included in the notes to the financial statements.

CITY OF ELGIN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

Apply analytical procedures to the draft financial statements.

Apply other procedures as considered necessary by the City.

Response - We will consider this, however, the City usually prepares a complete set of financial statements once every four years.

Conclusion - Response acknowledged.

INSTANCES OF NONCOMPLIANCE

No matters were noted

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE

No matters were noted.

INTERNAL CONTROL DEFICIENCIES

No material weaknesses were identified.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-12 Certified Budget - Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the public safety, culture and recreation, debt service and capital projects functions. Chapter 384.20 of the Code of Iowa states in part "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

CITY OF ELGIN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

IV-B-12 Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-12 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-12 Business Transactions - Business transactions between the City and City officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
William Pfister, Mayor, Employee of Fauser Oil	LP and diesel fuel	\$ 7,242
Robert Frieden, Council Member, Employee of Bodensteiner Implement	Repair parts and blower	1,420
Michael Baker, Council Member, Partner of Baker Concrete and Excavating	Franklin Street and library sidewalk	8,115

In accordance with Chapter 362.5(3)(K) of the Code of Iowa, the transactions with Bodensteiner Implement do not appear to represent a conflict of interest since total transactions with the business were less than \$ 2,500 during the fiscal year. The transactions with Fauser Oil and Baker Concrete and Excavating may represent a conflict of interest since the total cumulative transactions were greater than \$ 2,500.

Recommendation - The City should consult legal counsel to determine the disposition of the payments made to Fauser Oil and Baker Concrete and Excavating.

Response - We will consult with legal counsel.

Conclusion - Response accepted.

CITY OF ELGIN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

IV-E-12 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

IV-F-12 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-12 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-12 Revenue Bonds - Debt service requirements for the sewer revenue bonds for the fiscal year ended June 30, 2012 were \$ 40,677, while the Enterprise, Sewer Fund net operating receipts were only \$ 24,945. It appears the debt service requirements exceeding net operating receipts in Enterprise, Sewer Fund violates the revenue bond covenants.

Recommendation - The City should investigate ways to increase net operating receipts in the sewer enterprise activity.

Response - The City has increased sewer rates.

Conclusion - Response accepted.

IV-I-12 Financial Condition - The Enterprise, Sewer Fund had a deficit balance of \$ 28,271 at June 30, 2012.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response - The City has increased sewer rates.

Conclusion - Response accepted.

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b Kind of Payer (Check one)		941 <input type="checkbox"/> CT-1		Military <input type="checkbox"/> Hshd. emp.		943 <input type="checkbox"/> Medicare govt. emp.		944 <input type="checkbox"/>		Kind of Employer (Check one)		None apply <input type="checkbox"/>		501c non-govt. <input type="checkbox"/>		State/local non-501c <input type="checkbox"/>		State/local 501c <input type="checkbox"/>		Federal govt. <input type="checkbox"/>		Third-party sick pay (Check if applicable) <input type="checkbox"/>	
c Total number of Forms W-2				d Establishment number				1 Wages, tips, other compensation				2 Federal income tax withheld											
e Employer identification number (EIN)				3 Social security wages				4 Social security tax withheld															
f Employer's name				5 Medicare wages and tips				6 Medicare tax withheld															
g Employer's address and ZIP code				7 Social security tips				8 Allocated tips															
				9 [REDACTED]				10 Dependent care benefits															
				11 Nonqualified plans				12a Deferred compensation															
h Other EIN used this year				13 For third-party sick pay use only				12b [REDACTED]															
15 State Employer's state ID number				14 Income tax withheld by payer of third-party sick pay																			
16 State wages, tips, etc.				17 State income tax				18 Local wages, tips, etc.				19 Local income tax											
Contact person				Telephone number				For Official Use Only															
Email address				Fax number																			

Under penalties of perjury, I declare that I have examined this return and accompanying documents and, to the best of my knowledge and belief, they are true, correct, and complete.

Signature ▶

Title ▶

Date ▶

Form **W-3 Transmittal of Wage and Tax Statements** **2012**

Send this entire page with the entire Copy A page of Form(s) W-2 to the Social Security Administration (SSA). Photocopies are not acceptable. Do not send Form W-3 if you filed electronically with the SSA. Do not send any payment (cash, checks, money orders, etc.) with Forms W-2 and W-3.

Department of the Treasury
Internal Revenue Service

Reminder

Separate instructions. See the 2012 General Instructions for Forms W-2 and W-3 for information on completing this form.

Purpose of Form

A Form W-3 Transmittal is completed only when paper Copy A of Form(s) W-2, Wage and Tax Statement, is being filed. Do not file Form W-3 alone. Do not file Form W-3 for Form(s) W-2 that were submitted electronically to the SSA (see below). All paper forms **must** comply with IRS standards and be machine readable. Photocopies are **not** acceptable. Use a Form W-3 even if only one paper Form W-2 is being filed. Make sure both the Form W-3 and Form(s) W-2 show the correct tax year and Employer Identification Number (EIN). Make a copy of this form and keep it with Copy D (For Employer) of Form(s) W-2 for your records. The IRS recommends retaining copies of these forms for four years.

E-Filing

The SSA strongly suggests employers report Form W-3 and Forms W-2 Copy A electronically instead of on paper. The SSA provides two free e-filing options on its Business Services Online (BSO) website:

- **W-2 Online.** Use fill-in forms to create, save, print, and submit up to 50 Forms W-2 at a time to the SSA.
- **File Upload.** Upload wage files to the SSA you have created using payroll or tax software that formats the files according to the SSA's *Specifications for Filing Forms W-2 Electronically (EFW2)*.

W-2 Online fill-in forms or file uploads will be on time if submitted by April 1, 2013. For more information, go to www.socialsecurity.gov/employer and select "First Time Filers" or "Returning Filers" under "BEFORE YOU FILE."

When To File

Mail Copy A of Form W-3 with Form(s) W-2 by February 28, 2013.

Where To File Paper Forms

Send this entire page with the entire Copy A page of Form(s) W-2 to:

**Social Security Administration
Data Operations Center
Wilkes-Barre, PA 18769-0001**

Note. If you use "Certified Mail" to file, change the ZIP code to "18769-0002." If you use an IRS-approved private delivery service, add "ATTN: W-2 Process, 1150 E. Mountain Dr." to the address and change the ZIP code to "18702-7997." See Publication 15 (Circular E), Employer's Tax Guide, for a list of IRS-approved private delivery services.

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b Kind of Payer (Check one)		941 <input type="checkbox"/>	Military <input type="checkbox"/>	943 <input type="checkbox"/>	944 <input type="checkbox"/>	Kind of Employer (Check one)	
		CT-1 <input type="checkbox"/>	Hshld. emp. <input type="checkbox"/>	Medicare govt. emp. <input type="checkbox"/>		None apply <input type="checkbox"/>	501c non-govt. <input type="checkbox"/>
						State/local non-501c <input type="checkbox"/>	State/local 501c <input type="checkbox"/>
						Federal govt. <input type="checkbox"/>	Third-party sick pay (Check if applicable) <input type="checkbox"/>
c Total number of Forms W-2		d Establishment number		1 Wages, tips, other compensation		2 Federal income tax withheld	
e Employer identification number (EIN)				3 Social security wages		4 Social security tax withheld	
f Employer's name				5 Medicare wages and tips		6 Medicare tax withheld	
g Employer's address and ZIP code				7 Social security tips		8 Allocated tips	
				9 <input type="checkbox"/>		10 Dependent care benefits	
				11 Nonqualified plans		12a Deferred compensation	
h Other EIN used this year				13 For third-party sick pay use only		12b <input type="checkbox"/>	
15 State Employer's state ID number				14 Income tax withheld by payer of third-party sick pay			
16 State wages, tips, etc.		17 State income tax		18 Local wages, tips, etc.		19 Local income tax	
Contact person				Telephone number		For Official Use Only	
Email address				Fax number			

Under penalties of perjury, I declare that I have examined this return and accompanying documents and, to the best of my knowledge and belief, they are true, correct, and complete.

Signature ▶

Title ▶

Date ▶

Form **W-3** Transmittal of Wage and Tax Statements **2012**Department of the Treasury
Internal Revenue Service

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Do not send any payment (cash, checks, money orders, etc.) with Forms W-2 and W-3.

Reminder

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Purpose of Form

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E-Filing

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Contact person				Telephone number		For Official Use Only	
Email address				Fax number			

Under penalties of perjury, I declare that I have examined this return and accompanying documents and, to the best of my knowledge and belief, they are true, correct, and complete.

Signature ▶

Title ▶

Date ▶

Form W-3 Transmittal of Wage and Tax Statements 2012

 Department of the Treasury
 Internal Revenue Service

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Form W-3 Transmittal of Wage and Tax Statements

2012

Department of the Treasury
Internal Revenue Service

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